

ORIGINAL

TELECONFERENCE OF HEALTHSOUTH CORPORATION
3D QUARTER FINANCIAL RESULTS

November 5, 2002

HHEC 581-0001
Confidential Treatment
Requested by HealthSouth Corp.

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1 MR. SCRUSHY: Thank you very much
2 and I'd like to thank everyone for dialing
3 in today the HealthSouth third quarter
4 conference call. I'd like to begin by
5 stating that third quarter was a challenging
6 quarter for the company. The introduction
7 of Transmittal 1753 certainly had an impact
8 on the company. We had the negative press,
9 a lot of bad press on the company, which
10 created some problems for us in terms of
11 referrals, and so we took a hit in that
12 particular area.

13 The revenue increased by about 3
14 percent. That's excluding divestitures
15 versus third quarter of last year. The
16 impact, really where we were hurt the most,
17 was in the outpatient area. We had a 14
18 percent reduction in volume resulting in
19 about a 17 percent reduction in revenue
20 decline. This, of course, was due to lower
21 reimbursement, the Transmittal 1753 impact,
22 which that shows up in the pricing. Bill

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1 Owens will talk about that in a moment,
2 which is about an 11 percent reduction in
3 pricing. So you had a 14 percent reduction
4 in volume driving a 17 percent reduction in
5 revenue in that particular area. But
6 there's a lot of good news we're going to
7 talk about as well in other divisions, and
8 we'll walk you through that in a moment and
9 go through all the statistics.

10 As we had a lower revenue number
11 we had an increase in our A.R. days. But if
12 we were able to keep those revenues flat we
13 would have shown only a very slight
14 increase. We had about an \$18.5 million
15 increase in A.R., so our reduction, if we
16 hadn't have had -- without the reduction in
17 revenue we would have had about an 80.5 days
18 in A.R. But with the reduction it actually
19 drove it up to 86.5.

20 Now there were a lot of positives
21 in this challenging quarter. Outside of the
22 outpatient rehab all of the business lines

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1 had higher revenues versus third quarter of
2 last year. Inpatient revenue was actually
3 up 12 percent versus third quarter of last
4 year. Same-store volume growth and
5 inpatient diagnostic and surgery, we had
6 double-digit growth in inpatient revenues.

7 Now pricing increased over third
8 quarter of last year in the inpatient and in
9 the surgery area. I think something very
10 important here is that the company had a net
11 debt reduction of \$111 million in the
12 quarter even after buying back \$31 million
13 of our stock. Obviously we were in the
14 market buying stock back as our pricing went
15 down. So we would have pushed \$140-plus
16 million in debt reduction had we not spent
17 the \$31 million on our stock. So very
18 strong in that respect and so there are some
19 very good positives here that I think we
20 need to take a look at.

21 Now I want to ask Bill Owens, our
22 CEO, to walk through the financial

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